

AR37



POWER CORPORATION OF CANADA A n n u a l R e p o r t 1 9 8 5

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Power Corporation of Canada is a holding company
with significant Canadian and international interests
in financial services, forest products
and packaging.

FINANCIAL HIGHLIGHTS

	Thousands		
For the Year Ended December 31	1985	1984	1983
Consolidated earnings before extraordinary and other items	\$ 110,831	\$ 86,561	\$ 58,905
– per share	1.88	1.68	1.14
Consolidated net earnings	152,049	128,073	59,168
– per share	2.58	2.50	1.15
As at December 31			
Investments – subsidiaries and affiliate	\$ 812,502	\$ 723,603	\$ 703,389
– other	136,304	249,827	273,725
Long-term debt		201,625	292,650
Shareholders' equity	1,022,628	778,018	682,891

Si vous préférez recevoir ce rapport annuel en
français, veuillez vous adresser au
vice-président et secrétaire,
Power Corporation du Canada,
759, Square Victoria,
Montréal (Québec) Canada H2Y 2K4

REPORT TO SHAREHOLDERS

*Long-term debt
was eliminated
during the year...*

For the year 1985 the consolidated net earnings of the Corporation were \$152.0 million, as against \$128.1 million in 1984. These earnings are equivalent to \$2.58 per share as against \$2.50 in 1984, after allowing for the payment of dividends on the non-participating preferred shares. They include extraordinary gains and other items of \$41.2 million in 1985 and \$41.5 million in 1984. The weighted average number of shares outstanding was 58.7 million for 1985 and 51.0 million for 1984.

Total dividends paid on the participating preferred and subordinate voting shares during 1985 were 67.5 cents. The quarterly dividend was raised to 15 cents in March and to 18.75 cents in September. As a result, the annual dividend rate is now 75 cents, compared with 50 cents at the end of 1984.

The foregoing figures have been adjusted to reflect the two-for-one subdivision of the participating preferred and subordinate voting shares which was approved by the shareholders at their Special and Annual Meeting on May 10, 1985 and which took effect in June, 1985.

The results for the year reflect the continuing growth in earnings of each of the components of the Power Financial group of companies, an increase in the earnings of Consolidated-Bathurst Inc. and its packaging subsidiary, CB Pak Inc., and gains resulting from the disposition of shareholdings in CP Ltd. and from a secondary offering of shares of Power Financial Corporation.

The consolidated net income of Power Financial Corporation was \$108.7 million as against \$95.2 million on a pro forma basis in 1984. The net earnings of Consolidated-Bathurst Inc. increased from \$58.9 million to \$77.6 million of which your Corporation's share is \$26.5 million. The net earnings of Gesca Ltée declined from \$7.1 million to \$5.3 million.

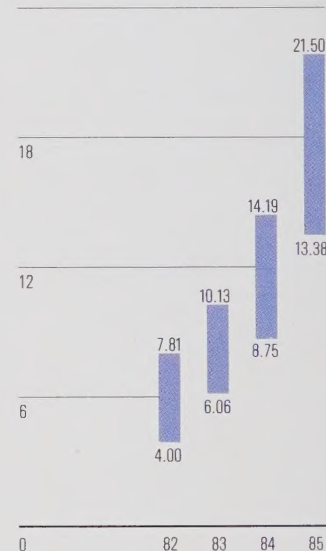
The operating results of each of these companies are discussed at greater length in the subsequent pages of this report.

While operating results of the constituent companies have continued to show improvement, your Corporation has maintained its efforts to build a strong capital base. In February 1985 it issued eight million subordinate voting shares for net proceeds of \$107.4 million. Pursuant to the articles of the Corporation, an offer was made to the holders of the 7½% participating preferred shares as a result of which 100,554 shares were issued for proceeds to your Corporation of \$1.4 million. During the year, rights to subscribe to 1.7 million subordinate voting shares at \$10.50 per share were exercised, for proceeds to your Corporation of \$17.85 million. A further 333,332 were exercised early in 1986 and a total of 633,332 of these rights, which were issued in April, 1984, remain outstanding. On February 18, 1986 your Corporation raised \$97.6 million when it completed the issue of a new series of two million cumulative redeemable first preferred shares carrying an initial dividend rate of 8 per cent.

As part of a new issue and secondary offering in May, 1985, your Corporation sold three million common shares of Power Financial Corporation for net proceeds of \$78.8 million. In the course of the same offering, Power Financial Corporation raised \$26.3 million by issuing one million common shares.

During the month of April, 1985, Consolidated-Bathurst issued six million common shares for proceeds of \$97.8 million, which were used to reduce borrowings

Price Range of
Subordinate Voting Shares
(high and low, adjusted for 1985 2-for-1 split)
(dollars)



Shareholders' Equity
and Long-Term Debt
(millions of dollars)



and fund its capital expenditure program. Power Corporation took up 2,384,000 shares in the course of this offering, for \$39.9 million, in order to maintain its proportionate share of the common equity. During December two million cumulative redeemable second preferred shares, Series C, were issued for net proceeds of \$49 million.

Your Corporation's interest in the National Bank of Canada was sold during 1985 for a price of \$23.5 million and its holding of shares of Canadian Pacific Limited was sold for net proceeds of \$187.9 million.

As a result of the major transactions outlined above, your Corporation eliminated its long-term debt. The reduction in debt has had the effect of substantially reducing interest costs in 1985.

On September 13, 1985, your Corporation signed an agreement to acquire 40.8 per cent of the total equity, including 99.6 per cent of the voting shares, of Télé-Métropole Inc. for \$97.8 million. The acquisition is subject to the approval of the Canadian Radio-Television and Telecommunications Commission. The purchase money and the shares have been deposited in escrow pending the Commission's decision. The Corporation has not accounted for its share of the earnings or dividends of Télé-Métropole Inc.; instead, the interest earned on the deposit in escrow has been included in the Corporation's financial statements in income from investments. Télé-Métropole owns and operates CFTM-TV in Montreal and CJPM-TV in Chicoutimi, Québec.

The Board of Directors has accepted with regret the resignation of The Honorable William E. Simon. Mr. Simon joined the Board in 1979 and has made an important contribution to your Corporation. At its meeting on March 7, 1986 the Board of Directors appointed The Honourable John B. Aird, O.C., Q.C., of Toronto to fill the vacancy created by Mr. Simon's resignation. Mr. Aird is a Senior Partner in the Toronto law firm of Aird & Berlis and was Lieutenant-Governor of the Province of Ontario until 1985.

At the Special and Annual Meeting, the shareholders will be asked to consider and approve a resolution increasing the number of Directors from 27 to 28. To fill the resulting vacancy it is proposed to nominate to the Board of Directors The Right Honourable the Viscount Rothermere, Chairman of Associated Newspapers Holdings Plc. of London, England.

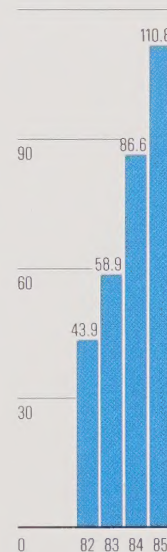
The Directors wish to express their appreciation and thanks to the officers and staff of your corporation and of the associated companies for their substantial contribution to the satisfactory financial results shown in 1985.

On behalf of the Board,

President

Chairman and
Chief Executive Officer

Consolidated Earnings
Before Extraordinary
Items
(millions of dollars)



Montréal, Québec March 7, 1986

FINANCIAL SERVICES

*Power Financial's
operating compa-
nies recorded
strong gains...*

Power Financial Corporation, in its first full year of operations, reported consolidated net income of \$108.7 million or \$2.66 a share compared with \$95.2 million or \$2.37 a share, on a pro forma basis, in 1984. Power Corporation holds 70.3 per cent of the equity of Power Financial Corporation.

Power Financial, directly and through subsidiaries, has a 96.2 per cent equity interest in The Great-West Life Assurance Company, a 98.1 per cent equity interest in The Investors Group, and a 55.4 per cent equity interest in Montreal Trustco Inc. Each of these long-established companies is pre-eminent in some or all aspects of the provision of financial services within their respective jurisdictions.

In 1985, Great-West Life had net income attributable to shareholders of \$85.6 million compared with \$77.6 million in 1984; Investors had net income, exclusive of its share of the earnings of The Great-West Life Assurance Company and Montreal Trustco Inc. and before the after-tax cost of debenture interest, of \$24.4 million compared with \$21.2 million; and Montreal Trustco had net income of \$18.4 million compared with \$15.6 million.

One of Power Financial's most valuable assets is the geographic scope and exceptional quality of the 12 distribution networks through which the three operating companies supply their comprehensive range of financial services and products.

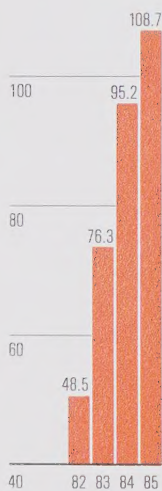
The distribution networks, built over many years, give the operating companies a marketing reach unmatched by other Canadian financial services companies. The networks, supported by 220 regional offices, extend across Canada and the United States and are served by some 8,000 sales representatives.

The quality of the networks is maintained by selective recruitment of sales representatives, and intensive and continuous training. At the same time, the use of



Montreal Trustco Inc. will move into a new head office in Place Montréal Trust in downtown Montreal in 1988. The Company will be the lead tenant in the 30-storey office tower of the multi-use complex. It will have an equity interest and will provide financing for the complex.

Net Income
(millions of dollars)
(1982-84 numbers
are pro forma)



One of the most valuable assets of Power Financial is its 12 North American distribution networks, supported by the 220 regional offices of its three operating companies. The networks give the Company a marketing reach unmatched by any other Canadian financial services company.

advanced computer technology is helping to develop new financial services and products, and to refine existing ones in response to changing market requirements. The flow of these new services and products into the networks makes them progressively more productive.

In 1985, the distribution networks generated sales of insurance, in terms of protection provided, of \$14.5 billion; sales of mutual funds totalling \$834 million; and gross revenues from financial, fiduciary, real estate brokerage and related services totalling \$409 million.

During the year, Power Financial increased its equity interest in Pargesa Holding S.A. The additional investment was financed in part by a short-term loan of Sfr. 69.4 million to be replaced by a privately placed, medium-term Swiss franc loan. The value of its investment in Pargesa was carried on Power Financial's books at \$82 million at fiscal yearend. Market value was \$116.7 million.

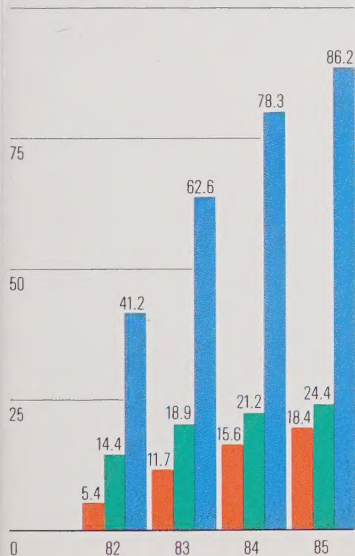
Pargesa is a Geneva-based investment group with assets at December 31, 1985 of Sfr. 977.3 million. Net income for the 12 months ending June 30, 1985 was Sfr. 46.3 million and for the six months ending December 31, 1985 was Sfr. 23.6 million. Of its extensive portfolio, 54.5 per cent is invested in retail and merchant banking and related financial services in Europe and the United States. The balance includes interests in broadcasting, real estate, transportation, public utilities and agriproducts.

The evolution of the financial services industry in Canada, the United States and Europe continues at a rapid pace. Power Financial and its operating companies have positioned themselves to adapt to regulatory changes as they occur and to meet new demands of the market place.



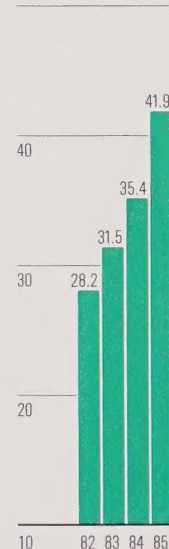
Gilles Marceau and Donna Cram of Market Development, Great-West Life, and Jan Belanger, Creative Services (right), ready plans to introduce new products. Great-West Life's product line is continuously expanded and refined to meet changing market needs.

Net Income of Operating Companies (millions of dollars)



- Great-West Life Assurance Company (attributable to common shareholders)
- Investors Group (from operations of Investors Group and wholly-owned subsidiaries)
- Montreal Trustco

Total Assets Under Administration (billions of dollars)



The Investors Group is Canada's largest distributor of mutual funds. Its 12 funds span the investment spectrum from debt to all classes of equity, and are in Canadian, U.S. and Japanese securities.

PULP AND PAPER AND PACKAGING

Packaging operations were vigorously expanded in the United States...

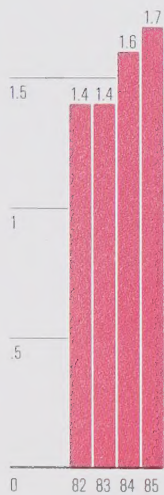
Consolidated-Bathurst Inc. is one of Canada's largest integrated pulp and paper and packaging enterprises. Through operations in Canada and the United Kingdom it has aggregate annual newsprint capacity of over 1.2 million tonnes. Its Canadian packaging subsidiaries, through 80 per cent-owned CB Pak Inc., account for over 50 per cent of the Canadian market for glass containers and produce a wide range of plastic packaging. CB Pak is also the principal shareholder of Diamond-Bathurst (42 per cent at yearend), a major U.S. bottle manufacturer with over 10 per cent of the United States market for bottles for distilled spirits. Consolidated-Bathurst holds 50 per cent of MacMillan Bathurst, a major Canadian producer of corrugated containers and 100 per cent of Europa Carton AG, one of West Germany's largest manufacturers and marketers of corrugated containers, folding cartons and paperboard.

Overall results of Consolidated-Bathurst improved modestly in 1985. Packaging operations showed substantially better results, while pulp and paper operations were affected by negative pricing developments and a six-month strike at the Bathurst Division mill. The Company reported earnings before extraordinary items of \$79.8 million compared with \$73.8 million in 1984. The earnings per share, reflecting a nine per cent increase in shares outstanding through 1985, were the same as in 1984 at \$1.40. Net earnings were \$77.6 million or \$1.36 a share compared with \$58.9 million or \$1.07 a share.

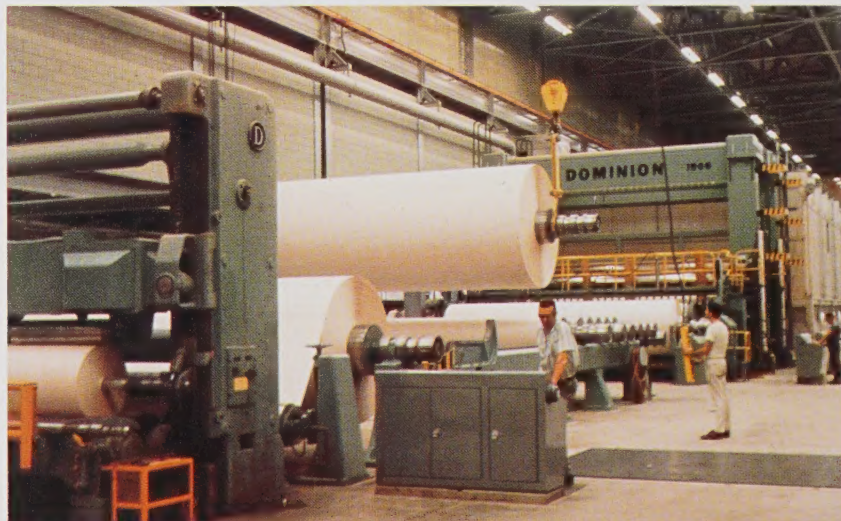
The net extraordinary charge against 1985 earnings was \$2.2 million compared with \$14.9 million in 1984. The Company wrote down to yearend market value its investments in Sceptre Resources Limited and Sulpetro Limited, wrote off its investment in a small foreign subsidiary, and made provision to cover the cost of the permanent closure of the Domglas plant in Burnaby, B.C. These charges were largely offset by gains on the issue of shares by Diamond-Bathurst and on the sale of the Company's shares in Canadian Pacific Limited.

The Company had record net sales of \$1.7 billion in 1985 compared to \$1.6 billion in 1984. Sales of newsprint and groundwood specialties increased 13 per cent. Production of pulp and paper products exceeded 1.5 million tonnes in spite of the

Net Sales
(billions of dollars)

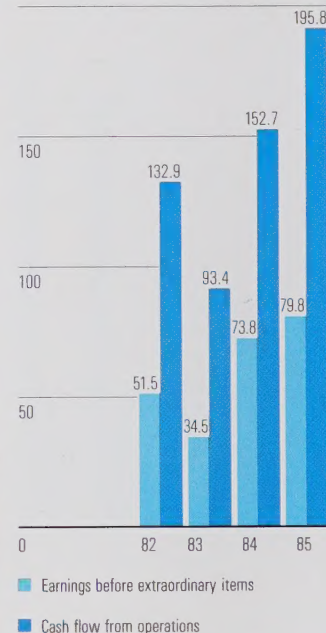


The five paper mills of Consolidated-Bathurst – four in Canada and one in the United Kingdom – have a production capacity of more than 1.2 million tonnes annually of newsprint and groundwood specialties. Sales of newsprint and groundwood specialties increased 13 per cent in 1985.



The Company uses advanced equipment to harvest its forest resources and to ensure their renewal. The Company's forest limits cover approximately 33,000 square kilometers.

Earnings and Cash Flow
(millions of dollars)



CB Pak's wholly-owned subsidiary, Twinpak Inc., is a leading North American producer of vacuum metalized packaging. Film for potato chip bags is metallized at its Brantford, Ontario, plant.



CB Pak with its subsidiaries and associated companies is the largest combined producer of glass, plastic and paper packaging in Canada. The growing market for bottles is served by its subsidiary, Domglas, which supplies over 50 per cent of the Canadian market for glass containers.

Bathurst Division strike. Net sales of CB Pak increased five per cent. Net sales of Europa Carton AG increased 13 per cent. Total operating earnings increased 16 per cent even though operating earnings of bleached kraft market pulp were almost halved.

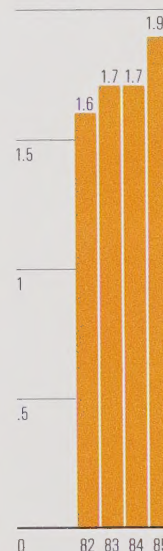
Prices of shares in CB Pak and Diamond-Bathurst rose sharply with the acquisition by the latter of 14 U.S. packaging plants in 1985, raising its total plants to 16, and an accompanying increase in sales from U.S.\$62 million to U.S.\$408 million. Diamond-Bathurst completed the acquisition of the shares of Container General Corporation in April and the assets of Thatcher Glass Corporation in July.

The Company increased capital expenditures by 48 per cent to \$176 million in 1985. Most of this, \$123 million, was directed to pulp and paper operations.

The Company issued six million common shares at \$16.75 a share in April. Of the net proceeds of \$97.8 million, \$80 million was used to reduce borrowings and the balance applied to 1985 capital expenditures. Power Corporation purchased 2,384,000 shares to maintain its proportionate holding. Two million cumulative redeemable second preferred shares, Series C, were also issued on December 31, for net proceeds of \$49 million. These equity issues strengthened the Company's financial position and enabled it to improve its debt/equity ratio from 49/51 at the end of 1984 to 38/62 at the end of 1985.

The quarterly dividend, which had been raised to 15 cents a share in 1984, was maintained through 1985.

Total Assets
(billions of dollars)



CB Pak, through Diamond-Bathurst, is now the third largest producer of glass containers in the U.S. The number of glass container plants in the United States increased from two to 16, and sales increased from US \$62 million to US \$408 million, during 1985. Shown here is its Roysersford, Pennsylvania, plant.

PUBLISHING

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Circulation advances were recorded by key Gesca publications...

Journalist Huguette Roberge of La Presse was the 1985 winner of the Judith-Jasmin award for excellence in journalism in the daily and weekly newspaper category. Mrs. Roberge, with La Presse since 1975, is the fifth journalist from the newspaper to win this coveted award, one of the most prestigious in Quebec.



Presses run off an edition of La Presse, one of the oldest and largest daily newspapers in Canada. The paper's Sunday edition, begun last year, has been favourably received.

Gesca Ltée, through a wholly owned subsidiary, publishes Montreal's La Presse and other daily and weekly newspapers. It is also active in book publishing through Les Éditions La Presse. Gesca had a net profit of \$5,319,000 in 1985 compared to \$7,055,000 in 1984. Included in the 1984 results is an extraordinary gain of \$738,000, the proceeds from the sale of Gesca's shares in the Centre Educatif et Culturel, a school and textbook publishing house.

The circulation of La Presse continued to advance, with the weekly average reaching some 200,000 copies a day. The Saturday edition, early last December, achieved a record peak of 334,000 copies. The Sunday edition, introduced last year, has exceeded circulation projections.

The program for upgrading newspaper equipment at La Presse continued in 1985. New photo composition machines were installed and two other important investment projects were begun: a shift to printing with plastic plates and the optimization of colour printing capacity.

During the year the newspaper underwent a number of other important changes, including the creation of a new food section and an increase in size of the weekly television programming section, which grew from 24 to 48 pages with more complete listing information. Strong efforts were made by La Presse's educational services group to broaden acceptance of the newspaper as a teaching aid in the school system. Last autumn, La Presse adopted the new standardized Canadian Newspaper Unit (CNU) advertising page format, as did almost all major dailies across the country.

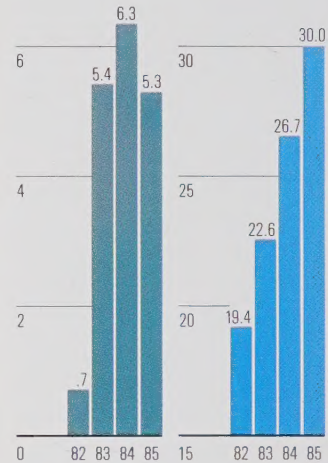
In labour relations, La Presse successfully negotiated new collective agreements with its unions that will run until April 30, 1988.

Gesca's subsidiary, Les Publications JTC Inc., includes three daily newspapers: Le Nouvelliste of Trois-Rivières, La Voix de l'Est of Granby, and La Tribune of Sherbrooke, all of which strengthened their positions in their respective markets. The first two achieved new circulation peaks. T. R. Offset, Le Nouvelliste's printing facility, was reorganized in 1985 to maximize the use of production capacity. Sales exceeded \$6.5 million during its first full year of operation. The group of weekly and biweekly newspapers had an excellent year in 1985.

In Granby, where Les Publications JTC also owns radio station CHEF, a new transmitter was installed which greatly increased the quality of the signal. This was an important factor in the profitability of the station during 1985.

Net Earnings
(excluding
extraordinary items)
(millions of dollars)

Shareholders' Equity
(millions of dollars)



Several community newspapers are printed by T. R. Offset, a subsidiary of Gesca, in Trois-Rivières. T. R. Offset also prints Le Nouvelliste, a member of Gesca's newspaper group.

FINANCIAL STATEMENTS

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Power Corporation of Canada

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Power Financial Corporation

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The Great-West Life
Assurance Company

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Montreal Trustco Inc.

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Gesca Ltée

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Consolidated-Bathurst Inc.

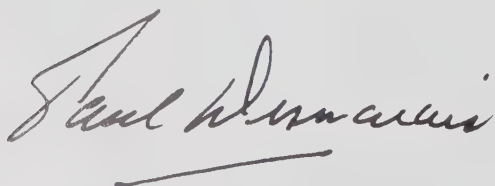
POWER CORPORATION OF CANADA

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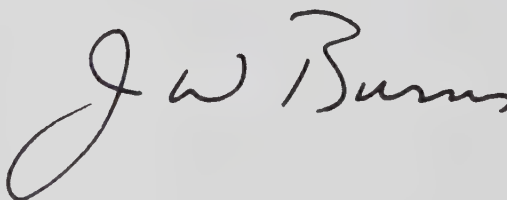
Consolidated Balance Sheet
As at December 31

	Thousands	
Assets	1985	1984
Current assets		
Cash and short-term investments	\$ 47,062	\$ 1,953
Accounts receivable	10,247	7,224
Income taxes recoverable		6,615
	57,309	15,792
Investments		
Subsidiaries and affiliate at equity (Note 2)	812,502	723,603
Other investments (Note 6)	136,304	249,827
	948,806	973,430
Fixed assets at cost	30,134	10,842
Less accumulated depreciation	4,264	5,561
	25,870	5,281
	\$ 1,031,985	\$ 994,503

Approved by the Board of Directors



Director



Director

	Thousands	
Liabilities	1985	1984
Current liabilities		
Accounts payable and accrued charges	\$ 3,411	\$ 784
Interest payable		2,255
Current portion of long-term debt		6,000
	3,411	9,039
Long-term debt		201,625
Deferred income taxes	5,946	5,821
Shareholders' Equity		
Stated capital (Note 3)		
Non-participating preferred shares	11,423	12,790
Participating preferred shares	19,482	18,074
Subordinate voting shares	289,715	159,865
Retained earnings	702,008	587,289
	1,022,628	778,018
	\$ 1,031,985	\$ 994,503

POWER CORPORATION OF CANADA

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Consolidated Statement of Earnings
For the year ended December 31

	Thousands	
	1985	1984
Share of earnings of subsidiaries and affiliate (Note 2)	\$ 112,629	\$ 110,851
Income from investments	12,474	6,704
	125,103	117,555
Operating expenses	7,978	6,423
Interest on long-term debt	6,362	23,924
Provision for depreciation	675	647
Recovery of income taxes	(743)	
	14,272	30,994
Earnings before extraordinary and other items	110,831	86,561
Extraordinary and other items (Note 4)	41,218	41,512
Net earnings	\$ 152,049	\$ 128,073
Earnings per participating preferred and subordinate voting share		
Before extraordinary and other items	\$ 1.88	\$ 1.68
After extraordinary and other items	\$ 2.58	\$ 2.50

Consolidated Statement of Retained Earnings
For the year ended December 31

Balance, beginning of year	\$ 587,289	\$ 490,615
Add (deduct)		
Net earnings	152,049	128,073
Gain on first preferred shares purchased for cancellation	305	531
Share of charges to retained earnings of subsidiaries and affiliate including foreign currency translation adjustments	6,122	(10,253)
	745,765	608,966
Deduct		
Dividends		
Non-participating preferred shares	559	625
Participating preferred shares	3,822	2,294
Subordinate voting shares	36,602	18,758
Share issue expenses, net of income taxes	2,774	
	43,757	21,677
Balance, end of year	\$ 702,008	\$ 587,289

Consolidated Statement of Changes in Financial Position
For the year ended December 31

	Thousands	
	1985	1984
Operations		
Earnings before extraordinary and other items	\$ 110,831	\$ 86,561
Non cash charges (credits)		
Earnings not received in cash	(75,252)	(77,271)
Provision for depreciation and other	(62)	537
	35,517	9,827
(Increase) decrease in accounts receivable	(3,023)	1,480
Decrease in income taxes recoverable	6,615	2,259
Increase (decrease) in accounts payable	372	(1,133)
Cash available from operations	39,481	12,433
Dividends		
Non-participating preferred shares	(559)	(625)
Participating preferred shares	(3,822)	(2,294)
Subordinate voting shares	(36,602)	(18,758)
	(40,983)	(21,677)
Financing activities		
Issue of shares	131,258	
Issue of long-term debt		7,000
Repayment of long-term debt	(207,625)	(110,925)
Share issue expenses	(4,817)	
Acquisition of first preferred shares for cancellation	(1,062)	(1,016)
	(82,246)	(104,941)
Investment activities		
Disposal of investments	292,013	446,028
Purchase of investments (Note 6)	(142,152)	(333,595)
Net additions to fixed assets	(21,004)	(1,182)
	128,857	111,251
Increase (decrease) in cash and short-term investments	45,109	(2,934)
Cash and short-term investments, beginning of year	1,953	4,887
Cash and short-term investments, end of year	\$ 47,062	\$ 1,953

POWER CORPORATION OF CANADA

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Notes to Consolidated Financial Statements
December 31, 1985Note 1. **Summary of significant accounting policies**

The accounting principles followed by Power Corporation of Canada and its subsidiaries and affiliate are in accordance with generally accepted accounting principles, except that the accounting practices followed by The Great-West Life Assurance Company are as prescribed or permitted by the Department of Insurance of Canada, as described in the notes to the financial statements of that company as presented on page 30 of this Report.

Principles of consolidation and presentation

The consolidated financial statements include the accounts of the Corporation and its wholly-owned investment subsidiaries.

Investments in other subsidiaries and affiliate are accounted for on the equity basis or on the modified equity basis in the case of The Great-West Life Assurance Company. A full consolidation of the financial statements of Power Corporation and its subsidiaries has not been prepared as such consolidation would not be appropriate in the circumstances. Financial statements of the major non-consolidated subsidiaries and affiliate are presented on pages 17 to 36 of this Report.

The difference between the cost of the investment in corporations accounted for on the equity basis and the book value of the underlying net assets at the dates of acquisition is included in the carrying value of these investments.

Investments

Other investments are stated at cost less write downs.

Depreciation

The fixed assets are depreciated at the maximum rates permitted for income tax purposes.

Income taxes

The Corporation follows the tax allocation basis in accounting for income taxes. Deferred income taxes shown on the financial statements represent taxes deferred mainly in respect of certain investments recorded at a cost which is in excess of their cost for income tax purposes.

Pensions

The Corporation has pension plans for employees, which are being funded, and the current service cost portion is charged to earnings as incurred.

Note 2. **Subsidiaries and affiliate at equity**

	Subsidiaries			Affiliate	
	The Investors Group	Power Financial Corporation	Gesca Ltée	Consolidated- Bathurst Inc.	Total
Voting and equity interest, December 31, 1985	n/a	70.3%	100%	39.8%	n/a
	Thousands				
Carrying value, December 31, 1984	\$ 26,831	\$ 422,460	\$ 27,741	\$ 246,571	\$ 723,603
Purchase of investments	10			39,932	39,942
Gain resulting from issue of common shares		9,740			9,740
Share of earnings	1,593	78,327(a)	5,319	27,390	112,629
Share of extraordinary and other items		399		(872)	(473)
Share of charges to retained earnings including foreign currency translation adjustments		(848)		6,970	6,122
Dividends	(1,593)	(21,972)	(2,000)	(11,812)	(37,377)
Disposal of investments		(40,622)	(1,062)		(41,684)
Carrying value, December 31, 1985	\$ 26,841(b)	\$ 447,484	\$ 29,998	\$ 308,179(c)	\$ 812,502
Share of equity, December 31, 1985	\$ 31,860	\$ 446,605	\$ 29,995	\$ 266,479(c)	\$ 774,939

a) Includes \$59,653,000 share of earnings, before deduction of carrying charges, derived from The Great-West Life Assurance Company, a subsidiary of Power Financial Corporation.

b) Represents cost of 1,274,394 5% cumulative redeemable preferred shares, 1969 Series.

c) Includes debentures of \$990,000.

Note 3. **Stated capital**

		Thousands	
		1985	1984
Non-participating preferred shares			
First preferred shares without nominal or par value issuable in series (i)			
Authorized – Unlimited number of shares			
Issued – 228,460 shares \$2.375 cumulative redeemable 1965 Series		\$ 11,423	\$ 12,790
7½¢ participating preferred shares without nominal or par value (ii), (iii) and (vi)			
Authorized – Unlimited number of shares			
Issued – 5,661,902 shares		\$ 19,482	\$ 18,074
Subordinate voting shares without nominal or par value (ii), (iv), (v) and (vi)			
Authorized – Unlimited number of shares			
Issued – 55,174,512 shares		\$ 289,715	\$ 159,865
(i)	redeemable at \$50.50 plus accrued and unpaid dividends and non-voting except under certain conditions. During the calendar year, 27,349 shares were redeemed and cancelled. The Corporation, through a sinking fund, is committed to retire 26,500 such shares in each twelve-month period from May 1 to April 30.	(v)	966,664 shares have been reserved for issuance pursuant to subscription rights granted on April 25, 1984. Such subscription rights are exercisable at any time up to April 25, 1987 at the price of \$10.50 per share. 1,700,000 shares were issued during the year upon the exercise of such subscription rights.
(ii)	adjusted for the two-for-one subdivision effective June 3, 1985.		1,600,000 additional shares have been reserved for issuance pursuant to an Executive Stock Option Plan established on March 8, 1985. Options were granted to purchase, until March 25, 1995, an aggregate of 1,050,000 shares, at the price of \$16.94 per share. As at December 31, 1985, no shares had been issued under this Plan.
(iii)	entitled to ten votes per share; entitled to a non-cumulative dividend of 7½¢ per share per annum before dividends on the subordinate voting shares and having the right to participate, share and share alike, with the holders of the subordinate voting shares in any dividends in any year after payment of a dividend of 7½¢ per share on the subordinate voting shares.	(vi)	100,554 7½¢ participating preferred shares and 8,000,000 subordinate voting shares were issued for cash during the year, at \$14 per share for a net consideration of \$108,590,000.
(iv)	entitled to one vote per share.		

Note 4. **Extraordinary and other items**

		Thousands	
		1985	1984
Gain resulting from issue of common shares of a subsidiary		\$ 9,740	\$ 45,060
Gain on sale of assets, net of income taxes		20,451	
Share of extraordinary and other items of subsidiaries and affiliate		(473)	(3,322)
Write down of investments		(4,976)	
Tax reduction arising from the carry-forward of prior years' losses		16,476	
Other			(226)
		\$ 41,218	\$ 41,512

Note 5. **Income taxes**

The Corporation has, at December 31, 1985, accumulated non-capital losses for tax purposes as a substantial portion of its net earnings is derived from its subsidiaries and affiliate. The benefits resulting from the use of these losses have not been accounted for in these financial statements.

The Corporation, on the advice of tax counsel, has filed a notice of objection to an income tax reassessment issued by Revenue Canada for the year 1981. The taxation years 1982 and 1983 are under review but no reassessment has been received. Adjustments to the taxable income for the years 1981 to 1983, if any, would be offset by the non-capital losses available as at December 31, 1985.

POWER CORPORATION OF CANADA

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Notes to Consolidated Financial Statements
December 31, 1985**Note 6. Purchase of shares of Télé-Métropole Inc.**

On September 13, 1985, the Corporation signed an agreement with three major shareholders of Télé-Métropole Inc. of Montréal to acquire 40.8% of the outstanding common shares of that company, representing 99.6% of the voting shares, for an aggregate consideration of \$97,824,000. The acquisition is subject to the approval of the Canadian Radio-Television and Telecommunications Commission (CRTC), to whom an application has been made and is pending. The purchase price and the shares to be acquired have been deposited in escrow pending

a decision by the CRTC. If the acquisition is approved by the CRTC, the Corporation is obligated to purchase at par, from two of the selling shareholders, debentures of Télé-Métropole Inc. having, at the date hereof, an aggregate nominal value of \$7,700,000.

The Corporation has not accounted for its share of the earnings or dividends of Télé-Métropole Inc. The interest earned on the deposit in escrow has been included in the income from investments.

Note 7. Other**a) Related party transactions**

The Corporation and its subsidiaries and affiliates have transactions with each other in the normal course of business at competitive prices but such transactions are not significant to the Corporation or its subsidiaries and affiliates.

b) Segmented information

The nature of the business is that of a holding and management corporation. Financial information on subsidiaries and affiliate is presented on pages 17 to 36 of this Report.

c) Diluted earnings per share

The dilution of earnings per participating preferred and subordinate voting share, after allowing for the exercise of the stock options and the subscription rights, is immaterial.

d) Comparative figures

Certain of the comparative figures have been reclassified to conform with the presentation adopted in 1985.

Note 8. Subsequent event

On February 18, 1986, 2,000,000 cumulative redeemable first preferred shares, 1986 Series, were issued at \$50 per share for a total consideration of \$100,000,000 under the terms of an underwriting

agreement dated January 24, 1986. Expenses of the issue, including underwriters' fees, absorbed by the Corporation are estimated to be \$2,400,000.

Auditors' Report

To the Shareholders of
Power Corporation of Canada

We have examined the consolidated balance sheet of Power Corporation of Canada as at December 31, 1985 and the consolidated statements of earnings, retained earnings, and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Montréal, Québec, March 7, 1986

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche Ross & Co.
Chartered Accountants

POWER FINANCIAL CORPORATION

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Consolidated Statement of Income
For the year ended December 31

	Thousands	
	1985	1984
Income		
Investment income	\$ 147,696	\$ 139,152
Management and distribution fees	91,929	67,290
Other	8,111	4,897
	247,736	211,339
Expenses		
Interest on certificate and trust liabilities	85,426	72,982
Additional credits to certificates	37,940	39,312
Certificate and service fee costs	19,741	17,077
Management and distribution costs	70,430	53,236
Trust operating costs	2,611	2,535
Interest	461	395
	216,609	185,537
Income from operations	31,127	25,802
Provision for income taxes (Note 9)	6,174	4,785
Net income from operations	24,953	21,017
Share of earnings of unconsolidated subsidiaries (Note 4)	91,721	82,295
	116,674	103,312
Debenture interest costs net of tax	1,576	1,716
Net operating income	115,098	101,596
Share of other items of unconsolidated subsidiary	578	687
Net income before minority interest	115,676	102,283
Minority interest	6,983	7,079
Net income before the following	108,693	95,204
Pre-acquisition net income		19,816
Net income	\$ 108,693	\$ 75,388
Earnings per share		
Net operating income after minority interest	\$ 2.65	\$ 2.03
Net income	\$ 2.66	\$ 1.88
Pro forma earnings per share (Note 1)		
Net operating income after minority interest		\$ 2.35
Net income		\$ 2.37

Consolidated Statement of Retained Earnings
For the year ended December 31

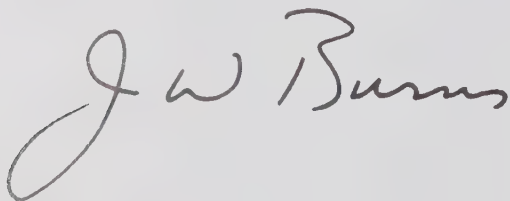
Balance, beginning of year	\$ 56,808	\$
Net income	108,693	75,388
	165,501	75,388
Share of charges to retained earnings of unconsolidated subsidiary		(176)
Share issue expenses	(1,206)	(295)
Dividends	(30,349)	(18,109)
Balance, end of year	\$ 133,946	\$ 56,808

POWER FINANCIAL CORPORATION

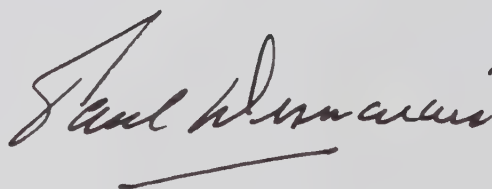
Consolidated Balance Sheet
As at December 31

	Thousands	
Assets	1985	1984
Cash and investments		
Cash and temporary investments	\$ 41,347	\$ 74,472
Marketable securities and accrued income (Note 3)	485,894	328,780
Mortgages on real estate and accrued income	850,929	823,705
Real estate	22,756	20,734
Loans to certificate holders	8,307	11,924
	1,409,233	1,259,615
Investment in unconsolidated subsidiaries (Note 4)	606,665	527,687
Office premises	7,175	5,949
Accounts and notes receivable	9,534	7,462
Income taxes recoverable		394
Deferred expenses	8,069	7,322
Other assets	5,327	2,885
	\$ 2,046,003	\$ 1,811,314

Approved by the Board of Directors



Director



Director

	Thousands	
Liabilities	1985	1984
Certificate and other liabilities		
Certificate liabilities (Note 5)	\$ 725,821	\$ 750,434
Provision for additional certificate credits	4,440	4,939
Guaranteed trust accounts (Note 2)	421,608	326,291
Bank loans	6,993	1,288
Tax deposits on mortgages	20,805	21,282
Dividends payable	8,796	6,565
Mortgage on real estate	7,153	6,136
Other liabilities	31,026	19,625
Income taxes payable	1,480	
	1,228,122	1,136,560
Income deferred to future years	3,928	5,029
Deferred income taxes	5,877	8,737
Long-term debt (Note 6)	78,404	32,796
	1,316,331	1,183,122
Minority interest (Note 7)	94,387	97,420
Shareholders' Equity		
Stated capital (Note 8)	501,339	473,964
Retained earnings	133,946	56,808
	635,285	530,772
	\$ 2,046,003	\$ 1,811,314

POWER FINANCIAL CORPORATION

Consolidated Statement of Changes in Financial Position
For the year ended December 31

	Thousands	
	1985	1984
Operations		
Net operating income	\$ 115,098	\$ 101,596
Less share of earnings retained by unconsolidated subsidiaries	59,400	56,559
	55,698	45,037
Non-cash charges (credits) to operations		
Deferred income taxes	(2,860)	(2,660)
Other	1,006	2,448
	53,844	44,825
Interest and additional credits on certificate and trust liabilities	123,366	112,294
Certificate and guaranteed trust sales and receipts	223,758	126,717
Certificate maturities and surrenders	(277,231)	(172,782)
Preferred dividends of a subsidiary	(4,958)	(5,147)
Miscellaneous	6,115	3,630
Cash available from operations	124,894	109,537
Financing activities		
Proceeds from issue of shares	27,375	138,000
Mortgage on real estate	1,017	6,136
Increase in bank loans	5,705	181
Issue of long-term debt	44,902	
Reduction of long-term debt	(1,500)	(2,504)
Redemption of preferred shares of a subsidiary	(4,200)	(4,200)
Dividends paid	(28,659)	(23,976)
Repayment of demand notes		(114,250)
	44,640	(613)
Investment activities		
Proceeds from security transactions	38,815	58,000
Mortgage principal collections and sales	111,812	75,461
Proceeds from sale of real estate		5,880
Decrease in loans to certificate holders	3,493	1,688
Investment in marketable securities	(135,208)	(99,653)
Investment in mortgages	(145,265)	(101,278)
Net additions to real estate and office premises	(1,725)	(10,014)
Purchase of investments	(74,581)	(23,374)
	(202,659)	(93,290)
(Decrease) increase in cash and temporary investments	(33,125)	15,634
Cash and temporary investments, beginning of year	74,472	58,838
Cash and temporary investments, end of year	\$ 41,347	\$ 74,472

Notes to Consolidated Financial Statements
December 31, 1985

Note 1. Financial statements presentation and summary of significant accounting policies

The accounting principles followed by Power Financial Corporation and its subsidiaries are in accordance with generally accepted accounting principles, except that the accounting practices followed by The Great-West Life Assurance Company are as prescribed or permitted by the Department of Insurance of Canada, as described in the notes to the financial statements of that company on page 30 of this Report.

The pro forma earnings per share as set out in the consolidated statement of income are presented to show what the Corporation's earnings per share in 1984 would have been if Power Financial Corporation had acquired The Investors Group at the beginning of 1984.

a) Principles of consolidation

The consolidated financial statements include the accounts of The Investors Group and its wholly-owned subsidiary companies.

The investments in The Great-West Life Assurance Company and Montreal Trustco Inc. are accounted for respectively on the modified equity basis and on the equity basis. A full consolidation of the financial statements of Power Financial Corporation and its subsidiaries has not been prepared as such statements would not be appropriate in the circumstances. Financial information for these subsidiaries is presented on pages 26 to 34 of this Report.

b) Marketable securities

It is a statutory requirement of the investment contract industry to amortize any differences between the original cost of bonds and debentures and their par value over the period to maturity in such a manner as to equalize the yield to maturity. The bonds and debentures included in this category are carried at amortized cost and all other securities are carried at original cost.

c) Mortgages and real estate

Mortgages are valued at amortized cost less provision for losses. Real estate is valued at cost less accumulated depreciation and provision for losses.

d) Office premises

Office premises are recorded at cost less accumulated depreciation of \$6,623,000 (1984-\$5,786,000). The depreciable properties and related equipment and furnishings are depreciated on a straight-line basis over their estimated life.

e) Certificate liabilities

Investment certificates entitle certificate holders to receive at maturity a definite sum of money. A portion of payments made by instalment certificate holders is added to certificate liabilities and the balance to service fee income. The portion of the certificate payments added to certificate liabilities, when combined with the

interest compounded at government approved rates, will accumulate to equal the specified maturity value at the maturity date. The aggregate accumulated certificate liabilities always exceed the aggregate cash surrender values of the outstanding investment certificates.

f) Deferred expenses

On single payment certificates, first year commissions paid to sales representatives together with all selling expenses are amortized over the first 36 months that they are in force. In prior years only the first year commissions were amortized, the selling costs were charged against income in the year of the sale. Under the new method selling costs of \$87,000 were charged to income in 1985 whereas under the previous method the charge to income would have been \$516,000. A special commission which is payable on the tenth anniversary of certain certificates is being provided for by an annual charge against income.

On guaranteed investment certificates, all commissions paid to sales representatives and all other selling expenses are amortized over the terms of the certificates.

g) Additional credits

In addition to the guaranteed maturity and cash surrender values, certificate holders are entitled to additional amounts. Full provision has been made for all additional credits, both earned and accrued.

h) Income taxes

The Corporation follows the tax allocation basis in accounting for income taxes. Deferred income taxes shown on the financial statements represent taxes deferred as a result of claims made in excess of charges in the accounts for capital cost allowances, mortgage reserves and certificate selling costs.

i) Foreign currency translation

For transactions denominated in foreign currencies, assets and liabilities are translated into Canadian dollars at exchange rates prevailing at the balance sheet date for monetary items and at exchange rates prevailing at the transaction dates for non-monetary items. Income and expenses are translated at average exchange rates prevailing during the year, currency gains and losses are reflected in earnings except for unrealized gains or losses on translation of foreign long-term debt which are deferred and amortized over the life of the related obligation.

j) Pensions

The Corporation has a pension plan for employees, which is being funded, and the current service cost portion is charged to earnings as incurred.

POWER FINANCIAL CORPORATION

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Notes to Consolidated Financial Statements
December 31, 1985

Note 2. Assets held for guaranteed trust accounts

Included in the consolidated balance sheet are the following assets of the guaranteed trust accounts of Investors Group Trust Co. Ltd.:

	Thousands	
	1985	1984
Cash and other investments	\$ 52,215	\$ 42,472
Marketable securities	54,167	28,223
First mortgages	315,226	255,596
	\$ 421,608	\$ 326,291

Note 3. Marketable securities and accrued income

	Thousands			
	1985		1984	
	Cost	Market	Cost	Market
Canadian government and corporate bonds and obligations	\$ 130,804	\$ 136,300	\$ 81,529	\$ 75,823
Canadian preferred stocks	236,898	236,776	193,089	179,275
Canadian common stocks	33,341	59,155	24,136	42,439
Aircraft certificates*	2,812	2,812	3,254	3,254
Pargesa Holding S.A.	82,039	116,714	26,772	27,236
	\$ 485,894	\$ 551,757	\$ 328,780	\$ 328,027

*Aircraft certificates represent part ownership of two aircraft leased to a major Canadian airline after deducting a liability of 11% serial debentures. The debentures amount to \$1,442,500

(1984-\$1,625,500), mature in 1991 and are secured by a mortgage on one aircraft and the related lease payments.

Note 4. Investment in unconsolidated subsidiaries

	The Great-West Life Assurance Company	Montreal Trustco Inc.	Total
Equity interest, December 31, 1985	96.2%	55.4%	n/a

	Thousands		
Carrying value of investments, beginning of year	\$ 454,605	\$ 73,082	\$ 527,687
Add (deduct)			
Allocation, upon the acquisition of shares of The Investors Group, of the excess of the acquisition cost over the net book value	269		269
Cost of shares acquired during the year		18,731	18,731
Share of net operating income	82,347	9,374	91,721
Share of other items	578		578
Dividends received	(28,854)	(3,467)	(32,321)
Carrying value of investments, end of year	\$ 508,945	\$ 97,720	\$ 606,665
Share of equity, December 31, 1985	\$ 551,319*	\$ 85,696	\$ 637,015

*Statutes governing the life insurance industry require that a portion of surplus be segregated as appropriated surplus for investment and other

asset valuations. Such appropriated surplus is not presently available for distribution to shareholders.

Note 5. **Certificate liabilities**

As security for investment certificates issued by a subsidiary, assets which qualify as investments under the Canadian and British Insurance Companies Act having a value in excess of net certificate liabilities

must be lodged by the subsidiary with an approved depository. As at December 31, 1985 the excess was \$78,657,000 (1984-\$104,124,000).

Note 6. **Long-term debt**

	Thousands	
	1985	1984
Swiss bank loans maturing to March 31, 1986 bearing interest at an average rate of 5.5% (Sfr. 69,421,000)*	\$ 47,108	\$
9 $\frac{7}{8}$ % debentures, 1978 Series due by a subsidiary on October 4, 1998 with a sinking fund requirement of \$1,500,000 per annum, which may be increased to \$2,500,000 at the subsidiary's option	31,296	32,796
	\$ 78,404	\$ 32,796

*Arrangements will be made to refinance these bank loans on a seven year term.

Note 7. **Minority interest**

Minority interest represents the portion of the shareholders' equity of The Investors Group attributable to shares not owned by the Corporation:

	Thousands	
	1985	1984
Preferred shares, 1969 Series*	\$ 32,179	\$ 32,179
Preferred shares, 1978 Series	51,600	55,800
Common shares and class A Non-Voting shares	10,608	9,441
	\$ 94,387	\$ 97,420

*Power Corporation of Canada, the parent corporation, owns 99% of the outstanding shares.

Note 8. **Stated capital**

Authorized

First preferred shares, issuable in series – unlimited
 Second preferred shares, issuable in series – unlimited
 Common shares – unlimited

Issued and outstanding

	Common shares	
	Number	Stated value
	Thousands	
Balance, beginning of year	40,242,026	\$ 473,964
Issued for cash	1,000,000	27,375
Balance, end of year	41,242,026	\$ 501,339

1,200,000 common shares have been reserved for issuance pursuant to an Employee Stock Option Plan established on March 7, 1985. Options were granted to purchase, until March 25, 1995, up to an aggregate of

710,000 shares, at the price of \$27.50 per share. As at December 31, 1985, no shares had been issued under this Plan.

POWER FINANCIAL CORPORATION

Notes to Consolidated Financial Statements
December 31, 1985Note 9. **Income taxes**

	Thousands	
	1985	1984
Income from operations	\$ 31,127	\$ 25,802
Deduct dividend and other non-taxable income	21,411	16,545
Adjusted income from operations	\$ 9,716	\$ 9,257
Effective rate of income taxes	51.52%	51.69%
Provision for income taxes based on effective rate	\$ 5,006	\$ 4,785
Provision for prior years' income tax adjustments	1,168	
Provision for taxes on income from operations	6,174	4,785
Income taxes recovered on debenture interest	1,771	1,859
Net provision for income taxes	\$ 4,403	\$ 2,926

Note 10. **Contingencies and commitments**

a) In connection with real estate investments, The Investors Group is contingently liable for guarantees of mortgage financing totalling \$4,947,000 and letters of credit totalling \$8,390,000 less a guarantee of \$3,146,000 from a participant in certain real estate projects.

b) Investors Mortgage Fund, a mutual fund managed by a subsidiary, invests in first mortgages on improved real estate in Canada. It is anticipated that there will always be ample cash and marketable securities in the fund available to meet future withdrawals. However, should the withdrawals exceed available cash and marketable securities, The Investors Group has guaranteed to find a purchaser for (or failing to do so, purchase itself) sufficient

mortgages at prices not less than 95% of the then prevailing market value thereof, to realize sufficient monies to enable the Trustee to meet all such withdrawals.

As at December 31, 1985 total assets of Investors Mortgage Fund were \$699,951,000 comprising \$128,926,000 in cash and other liquid assets and \$571,025,000 in mortgages.

c) A subsidiary and The Investors Group as a covenantor are committed to the construction and completion of a Head Office building by March 31, 1988 at an estimated cost of \$35,000,000.

Note 11. **Subsequent event**

Pursuant to an underwriting agreement dated December 11, 1985, The Investors Group sold on January 16, 1986, \$50,000,000 of 10.6% Debentures, 1986 Series for proceeds of \$49,550,000. The debentures

will mature on January 16, 2006, are redeemable by the company commencing in 1991 and carry an annual sinking fund requirement of \$1,785,000 commencing in 1992.

Note 12. **Related party transactions**

The Corporation and its subsidiaries and affiliates have transactions with each other in the normal course of business at competitive prices

but such transactions are not significant to the Corporation or its subsidiaries and affiliates.

Note 13. **Segmented information**

The Corporation operates in three distinct industry segments: the life insurance industry as represented by its controlling interest in The Great-West Life Assurance Company, the trust company industry as represented by its controlling interest in Montreal Trustco Inc. and the

financial services industry as represented by the operations of The Investors Group and its wholly-owned subsidiaries. Financial information on each segment is provided in the consolidated financial statements and on pages 26 to 34 of this Report.

Note 14. **Other**

a) Depreciation and amortization for the year amounted to \$1,097,000 (1984 - \$956,000).

b) Certain of the comparative figures have been reclassified to conform with the presentation adopted in 1985.

Auditors' Report

To the Shareholders of
Power Financial Corporation

We have examined the consolidated balance sheet of Power Financial Corporation as at December 31, 1985 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Montréal, Québec, March 6, 1986

Touche Ross & Co.
Chartered Accountants

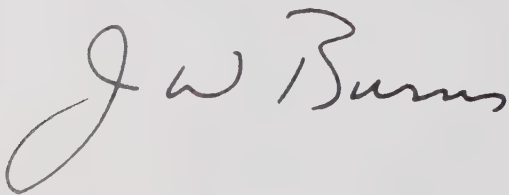
THE GREAT-WEST LIFE ASSURANCE COMPANY

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Consolidated Balance Sheet
As at December 31

	Thousands	
Assets	1985	1984
		(Note 9)
Bonds (Note 1b)	\$ 2,904,374	\$ 2,648,812
Mortgages and sale agreements (Note 1b)	4,833,997	3,582,981
Stocks (Note 1c)	262,654	371,125
Real estate (Note 1d)	701,410	676,049
Loans to policyholders	318,910	322,842
Cash and certificates of deposit	114,424	92,221
Premiums in course of collection	72,592	95,536
Interest due and accrued	148,299	131,969
Segregated investment funds (Note 1e)	1,342,539	1,136,763
Other assets	101,823	127,841
	\$ 10,801,022	\$ 9,186,139

Approved by the Board of Directors



Director



Director

	Thousands	
Liabilities	1985	1984
		(Note 9)
Policy benefit liabilities		
Policy reserves (Note 1g)	\$ 6,973,391	\$ 5,908,388
Segregated investment funds	1,342,539	1,136,763
Provision for claims	443,988	399,181
Provision for 1986 policyholders' dividends	70,660	64,839
Provision for experience rating refunds	75,833	81,922
	8,906,411	7,591,093
Policyholders' funds	392,935	365,960
Mortgages on real estate	273,818	280,333
Income taxes payable	5,836	4,940
Deferred income taxes (Note 1f)	16,832	11,874
Other liabilities	150,686	115,700
	9,746,518	8,369,900
Capital stock and surplus		
Capital stock (Note 2)	152,000	2,000
Appropriated surplus (Note 4)		
Participating policyholders	72,644	70,861
Shareholders	232,624	201,327
Unappropriated surplus		
Participating policyholders	258,639	228,377
Shareholders	338,597	313,674
	1,054,504	816,239
	\$ 10,801,022	\$ 9,186,139

THE GREAT-WEST LIFE ASSURANCE COMPANY

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Summary of Consolidated Operations
For the year ended December 31

	Thousands	
	1985	1984
Income		(Note 9)
Life insurance and annuity premiums	\$ 1,772,749	\$ 1,514,025
Accident and health premiums	533,649	533,520
Property and casualty premiums	13,305	11,848
Net investment income	1,001,464	855,538
Net realized and unrealized capital gains on assets of segregated investment funds (Note 1e)	94,140	9,493
	3,415,307	2,924,424
Benefits and expenses		
Life and annuity benefits	1,066,570	925,292
Accident and health benefits	411,180	414,504
Property and casualty benefits	12,969	10,541
Interest on funds on deposit	42,446	35,846
Increase in policy reserves (Note 1g)	1,270,335	989,817
Policyholder dividends and experience refunds	100,964	101,735
Total paid or credited to policyholders	2,904,464	2,477,735
Commissions and operating expenses	368,639	324,804
Premium taxes	20,675	22,010
Net operating income before income taxes	121,529	99,875
Income taxes – current	3,414	4,503
– deferred	2,280	(5,275)
Net income from operations	115,835	100,647
Other items (Note 3)	4,784	18,635
Net income	\$ 120,619	\$ 119,282
Summary of net income (Note 1h)		
Attributable to participating policyholders		
Net income before policyholder dividends	\$ 99,752	\$ 87,541
Policyholder dividends	71,890	64,500
Net income from operations	27,862	23,041
Other items (Note 3)	4,183	17,920
Net income – participating policyholders	\$ 32,045	\$ 40,961
Attributable to shareholders		
Net income from operations	\$ 87,973	\$ 77,606
Other items (Note 3)	601	715
Net income – shareholders	88,574	78,321
Dividends to preferred shareholders	2,354	
Net income – common shareholders	\$ 86,220	\$ 78,321
Earnings per common share		
From operations	\$ 42.81	\$ 38.80
Including other items	\$ 43.11	\$ 39.16

Consolidated Statement of Surplus
For the year ended December 31, 1985

	Thousands		
	Participating Policyholders	Shareholders	Total
Appropriated			
Balance, January 1	\$ 70,861	\$ 201,327	\$ 272,188
Add			
Increase in special reserves			
Investment valuation and currency reserve – net	937	1,015	1,952
Reserve for cash value deficiencies and amounts			
of negative reserves	2,421	35,217	37,638
Reserve for miscellaneous assets	(1,575)	(4,935)	(6,510)
	1,783	31,297	33,080
Balance, December 31	\$ 72,644	\$ 232,624	\$ 305,268
Unappropriated			
Balance, January 1	\$ 228,377	\$ 313,674	\$ 542,051
Add			
Total net income for year from summary of operations	32,045	88,574	120,619
Deduct			
Dividends to shareholders			
– preferred shareholders		2,354	2,354
– common shareholders		30,000	30,000
Changes in special reserves appropriated from surplus	1,783	31,297	33,080
Balance, December 31	\$ 258,639	\$ 338,597	\$ 597,236

THE GREAT-WEST LIFE ASSURANCE COMPANY

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Notes to Consolidated Financial Statements
December 31, 1985Note 1. **Summary of significant accounting practices**

The accounting practices followed by the Company are as prescribed or permitted by the Department of Insurance of Canada for the purpose of reporting to policyholders and shareholders.

- a) Financial results for 1985 are reported on a consolidated basis. All significant intercompany balances and transactions are eliminated on consolidation. The Company's principal subsidiaries are:

Great-West Life & Annuity Insurance Company
Torwest Properties U.S.A. Limited
Gold Circle Insurance Company
G.W.L. Properties Ltd.
Great-West Realty Investments, Inc.

During 1986, the Gold Circle Insurance Company will cease operations with its in-force business being transferred to The Personal Insurance Company of Canada. In return, Great-West Life will receive an equity interest in The Personal Insurance Company of Canada. GWL Realty Investment Inc. was sold in September with the gain on sale recorded in other items.

- b) Investments in bonds, mortgages and sale agreements (debt securities) are basically carried at amortized cost with the securities of the life account adjusted by the unamortized balance of losses or gains on sales of securities. The difference between the proceeds on the sale of a debt security and its amortized cost is considered to be an adjustment of future portfolio yield, and is deferred and amortized over the period to maturity of the security sold. The unamortized balances at December 31, 1985 are \$7,101,000 of net gains for bonds (\$41,014,000 of net losses in 1984) and \$320,000 of net gains for mortgages (\$200,000 in 1984).

Bonds, mortgages and sale agreements have a market value on a basis authorized by the Department of Insurance of \$7,813,543,000 (\$5,902,403,000 in 1984). In most instances, the carrying value of debt securities will be realized since they will be held to maturity to discharge policy contract liabilities maturing at the same time.

- c) Investments in stocks (equity securities) in the life account are carried at cost less an adjustment which consists of realized gains and losses as well as a market value adjustment which is a portion of the difference between adjusted book value and year-end market value of all equity securities. The adjustment at December 31, 1985 amounted to \$128,661,000 (\$62,266,000 in 1984). Equity investments in respect of the accident and health business are carried at cost.

Equity securities have a market value on a basis authorized by the Department of Insurance of \$541,233,000 (\$599,451,000 in 1984).

- d) Real estate at December 31, 1985 is carried at a written down cost of \$739,779,000 (\$709,603,000 in 1984) less accumulated depreciation of \$38,369,000 (\$33,554,000 in 1984).

The market value of the real estate portfolio has been calculated at \$808,338,000 (\$775,599,000 in 1984).

- e) Investments held for segregated investment funds are carried at market value. Net realized and unrealized capital gains on segregated investment funds were \$94,140,000 in 1985 (\$9,493,000 in 1984). Such capital gains to the funds are reflected in the increase in policy reserves and do not affect net income of the Company.
- f) Income taxes are calculated using the deferred-tax method on a present value basis.
- g) Policy reserves represent the amount which, in the judgement of the Valuation Actuary, is required, together with future premiums and investment income, to provide for future policy benefits, administrative expenses and taxes on insurance and annuity policies. Asset values and projected maturities of assets and liabilities are continuously monitored and appropriately considered in the determination of policy reserves.

Policy reserves are calculated using assumptions considered to be appropriate to the policies in force and recognize the deferral of certain costs of acquiring policies. The amount of unamortized deferred acquisition costs deducted in arriving at the policy reserves was \$229,138,000 at December 31, 1985 (\$171,542,000 at December 31, 1984).

- h) Net income includes earnings of the participating, non-participating and the health insurance accounts. Earnings applicable to shareholders include net earnings of the non-participating and the health accounts and 2½%, as restricted by law, of the distributions from the participating account.
- i) Commencing in 1985, subsidiaries are being reported on a consolidated basis rather than in other items on an equity basis as in prior years and, as well, realized gains on transfer of currency from United States to Canada have been moved to net income from operations before other items. These changes had no effect on net income.

Note 2. **Capital Stock**

	Thousands	
	1985	1984
Authorized		
20,000,000 Preferred Shares, par value of \$25		
50,000,000 Common Shares, par value of \$1		
Issued and Outstanding		
6,000,000 Series A, 7.70% Cumulative Preferred Shares	\$150,000	\$
2,000,000 Common Shares	2,000	2,000
	\$152,000	\$ 2,000

By supplementary letters patent dated May 3, 1985, the authorized capital of the Company was increased from \$2,000,000 to \$550,000,000 by the creation of 20,000,000 preferred shares, issuable in series, par value of \$25 and 48,000,000 additional common shares par value of \$1.

On October 17, 1985, the Company issued, for cash, 6,000,000 Series A, 7.70% Cumulative Preferred Shares, par value \$25. This issue

is redeemable on December 31, 1990 at par, with earlier redemption privileges. Expenses of the issue amounting to \$3,311,000 are being amortized over the period to redemption and the unamortized balance is included in other assets. Appropriated surplus for miscellaneous assets has been increased by the unamortized balance of the expenses of issue.

Note 3. **Other items**

Other items, net of income taxes, include the results of:

	Thousands			
	1985		1984	
Attributable to:	Participating Policyholders	Shareholders	Participating Policyholders	Shareholders
Net realized gains on sale of assets (Note 3a)	\$ 1,509	\$ 12,303	\$ 1,133	\$ 6,839
Net write-down of assets	7,500	(12,620)	(2,436)	(15,542)
Prior years' income tax adjustment			13,614	2,810
Gain due to change in book rates of exchange			5,441	11,043
Changes in policy reserves	(4,928)			(2,780)
Provision for strengthening of employee benefit plans			(426)	(2,150)
Provision for insurance guarantee association assessments	102	918	(408)	(3,672)
Accounting basis change for subsidiaries			1,002	4,167
	\$ 4,183	\$ 601	\$17,920	\$ 715
	\$ 4,784		\$18,635	

a) Realized gains, net of income taxes of \$1,892,000 (\$833,000 in 1984), on sales of assets include the results of:

- i. all disposals of assets of the accident and health account;
- ii. disposals of real estate in the life account;
- iii. gain on sale of GWL Realty Investment Inc.

THE GREAT-WEST LIFE ASSURANCE COMPANY

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Notes to Consolidated Financial Statements
December 31, 1985Note 4. **Appropriation of surplus**

Appropriated surplus represents reserves required by the Department of Insurance of Canada and comprises the following:

	Thousands	
	1985	1984
Participating account		
Investment valuation and currency reserve – net	\$ 17,941	\$ 17,004
Reserve for cash value deficiencies and amounts of negative reserves	34,256	31,835
Reserve for miscellaneous assets	20,447	22,022
	\$ 72,644	\$ 70,861
Non-participating and health accounts		
Investment valuation and currency reserve – net	\$ 59,128	\$ 58,113
Reserve for cash value deficiencies and amounts of negative reserves	111,897	76,680
Reserve for miscellaneous assets	61,599	66,534
	\$ 232,624	\$ 201,327

Note 5. **United States dollar transactions**

United States currency items are translated at a book rate of \$1.20 in Canadian dollars. A gain in 1984 of \$16,484,000 resulted from a change in the book rates of exchange from \$1.15 to \$1.20. It is the intention of the Company to alter this rate whenever it is evident that currency rates have changed significantly and in the opinion of the Company the rate will not be reversed in the near term.

Conversion to Canadian dollars of the excess of United States dollar assets over United States dollar liabilities at the December 31, 1985 exchange rate rather than the book rate of \$1.20 would have produced an increase in net assets of approximately \$68,939,000 (\$42,204,000 in 1984). In accordance with reporting requirements \$32,382,000 (\$30,651,000 in 1984) is reflected in the balance sheet by a reduction in the investment valuation and currency reserve shown in note 4.

Note 6. **Related party transactions**

Transactions with related parties consist mainly of the provision of insurance benefits to other companies within the Power Corporation of

Canada group of companies. In all cases, such transactions are made in the normal course of business and at competitive prices.

Note 7. **Company's effective income tax rate**

The Company's effective income tax rate is made up as follows:

	1985	1984
Combined basic Canadian federal and provincial tax rate	51.3%	(Note 9) 50.4%
Increase (Decrease) in the income tax rate resulting from:		
Adjustment of deferred taxes to a present value basis	(34.1)	(38.7)
Tax exempt dividends on stocks	(2.3)	(1.9)
Tax exempt portion of capital gains	(2.9)	(2.5)
Lower effective tax rates on income not subject to tax in Canada	(4.8)	(8.4)
Miscellaneous	(2.5)	0.3
Effective income tax rate	4.7%	(0.8%)

Note 8. **Contingent liabilities**

The Company has entered into a number of joint ventures and partnerships and has equity positions in a number of real estate development corporations which have not been consolidated in its

financial results. The contingent liability opposite these participations is \$185,100,000 and this amount is supported by the underlying value of the assets of the various entities.

Note 9. **Comparative figures**

The 1984 comparative figures have been reclassified on a consolidated basis to be consistent with the financial statement presentation adopted in 1985.

Valuation Actuary's Certificate

To the Policyholders, Shareholders
and Directors of
The Great-West Life Assurance Company

I have made the valuation of the policy benefit liabilities of The Great-West Life Assurance Company and its consolidated life insurance company subsidiary, Great-West Life & Annuity Insurance Company, for the consolidated balance sheet at December 31, 1985 and the summary of consolidated operations for the year then ended. In my opinion: i) the valuation conforms to the Recommendations for Insurance Company Financial Reporting of the Canadian Institute of

Actuaries; ii) the amount of the policy benefit liabilities makes proper provision for future payments under the Companies' policies; iii) a proper charge on account of those liabilities has been made in the summary of consolidated operations; and iv) the amount of surplus appropriation for policies whose cash value exceeds the policy benefit liability is proper.

January 30, 1986

W.E. Bergquist, F.S.A., F.C.I.A., M.A.A.A.
Senior Vice-President and Actuary

Auditors' Report

To the Policyholders, Shareholders
and Directors of
The Great-West Life Assurance Company

We have examined the consolidated balance sheet of The Great-West Life Assurance Company as at December 31, 1985 and the summary of consolidated operations and the consolidated statement of surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1985 and the results of its operations for the year then ended in accordance with the accounting practices described in Note 1 to the financial statements applied, after giving retroactive effect to the change in the method of accounting for subsidiaries as described in Note 1(i) to the financial statements, on a basis consistent with that of the preceding year.

Winnipeg, Manitoba, January 30, 1986

Touche Ross & Co.
Chartered Accountants

MONTREAL TRUSTCO INC.

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Condensed Financial Statements
December 31

	Thousands	
Condensed Income Statement	1985	1984
Gross revenue	\$ 409,481	\$ 338,880
Operating revenue		
Fiduciary	\$ 64,204	\$ 62,090
Financial intermediary	45,747	38,528
Real estate	14,835	11,206
	124,786	111,824
Operating expenses	(106,901)	(97,340)
Income taxes	521	1,149
Net income	\$ 18,406	\$ 15,633
Net income per common share	\$ 1.50	\$ 1.35
Dividends per common share	\$ 0.555	\$ 0.48
Power Financial's share of earnings	\$ 9,374	\$ 7,655
Book value of Power Financial's investment in Montreal Trustco – year-end	\$ 97,720	\$ 73,082

Condensed Balance Sheet

Cash, deposit receipts and treasury bills	\$ 375,000	\$ 271,368
Short-term notes and demand loans	354,466	389,535
Securities	287,411	321,127
Corporate and government loans	268,172	130,469
Mortgages	1,768,385	1,374,780
Premises and equipment	20,730	17,240
Other assets	27,063	24,698
Total assets	\$ 3,101,227	\$ 2,529,217
Deposits	\$ 511,584	\$ 471,683
Investment certificates	2,208,272	1,858,204
	2,719,856	2,329,887
Other liabilities	116,685	34,943
99 year debentures	60,000	
Subordinated debentures	30,000	30,000
Preferred shares	20,000	20,000
Common shareholders' equity	154,686	114,387
Total liabilities and shareholders' equity	\$ 3,101,227	\$ 2,529,217

GESCA LTÉE

Condensed Financial Statements
December 31

	Thousands	
Condensed Income Statement	1985	1984
Operating revenues	\$ 153,597	\$ 142,765
Other income	206	445
	153,803	143,210
Operating expenses	142,828	131,159
Depreciation and amortization	2,203	2,155
Interest	188	565
Income taxes	3,265	3,014
	148,484	136,893
Earnings before extraordinary items*	\$ 5,319	\$ 6,317
*excludes an extraordinary gain of \$738 in 1984.		
Book value of Power's investment in Gesca Ltée - year-end	\$ 29,998	\$ 26,679

Condensed Balance Sheet

Current assets	\$ 20,202	\$ 16,236
Fixed assets - net	20,006	21,411
Investments and other assets	43	
Goodwill	15,285	15,340
Total assets	\$ 55,536	\$ 52,987
Current liabilities	\$ 22,627	\$ 21,339
Long-term debt	33	1,414
Deferred income taxes	2,870	3,547
Shareholders' equity	30,006	26,687
Total liabilities and shareholders' equity	\$ 55,536	\$ 52,987

CONSOLIDATED-BATHURST INC.

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Condensed Financial Statements
December 31

	Thousands	
Condensed Income Statement	1985	1984
Net sales	\$ 1,727,468	\$ 1,622,984
Other income	13,396	10,436
	1,740,864	1,633,420
Cost of goods sold, including depreciation	1,458,299	1,385,854
Administrative and selling expenses	90,835	84,576
Interest	63,695	67,227
Income taxes	40,906	18,972
Minority interest	7,372	2,983
	1,661,107	1,559,612
Earnings before extraordinary items	\$ 79,757	\$ 73,808
Earnings per common share	\$ 1.40	\$ 1.40
Dividends per common share	\$ 0.60	\$ 0.50
Power Corporation's share of earnings*	\$ 27,390	\$ 25,059
Book value of Power's investment in Consolidated-Bathurst - year-end	\$ 307,189	\$ 245,581

*excludes share of extraordinary losses of \$872 in 1985 and \$5,907 in 1984.

Condensed Balance Sheet

Current assets	\$ 609,050	\$ 565,630
Property and plant - net	1,036,831	921,397
Investments and other assets	216,855	188,886
Total assets	\$ 1,862,736	\$ 1,675,913
Current liabilities	\$ 289,420	\$ 308,355
Long-term debt and provisions	481,575	503,110
Deferred income taxes and credits	232,488	215,211
Minority interest and preferred equity	192,223	136,333
Common shareholders' equity	667,030	512,904
Total liabilities and shareholders' equity	\$ 1,862,736	\$ 1,675,913

BOARD OF DIRECTORS

The Honourable John B. Aird, O.C., Q.C.

Senior Partner, Aird & Berlis

Michel Bélanger (2)Chairman and Chief Executive Officer,
National Bank of Canada**Charles R. Bronfman, O.C. (3)**Deputy Chairman and
Chairman of the Executive Committee,
The Seagram Company Ltd.**James W. Burns (1)**

President of the Corporation

Peter D. Curry (1)

Deputy Chairman of the Corporation

The Honourable William G. Davis, P.C., Q.C.

Counsel, Tory, Tory, DesLauriers & Binnington

Paul Desmarais, O.C. (1)Chairman and Chief Executive
Officer of the Corporation**Gérard Eskenazi**

Chairman, Banque Paribas (Suisse) S.A.

Rowland C. FrazeeChairman and Chief Executive Officer,
The Royal Bank of Canada**Albert P. Frère**Deputy Chairman and Chairman
of the Executive Committee,
Groupe Bruxelles Lambert S.A.**William M. Fuller (2)**

Chairman, Fuller Petroleum, Inc.

Pierre Genest, Q.C. (2)

Partner, Cassels, Brock & Blackwell

Jean-Paul Gignac, O.C.

Director

Roland Giroux, C.C. (1)

Director

Pierre Haas

Honorary Chairman, Paribas International

Jean-Yves HabererChairman and Chief Executive Officer,
Compagnie Financière de Paribas**Arden R. Haynes**Chairman, President and Chief Executive Officer,
Imperial Oil Limited**F. Ross Johnson (3)**President and Chief Executive Officer,
R. J. Reynolds Inc.**Robert H. Jones**

Chairman, The Investors Group

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Executive Vice-President of the Corporation

Paul Britton Paine, Q.C. (2) (3)

Director

Robert ParizeauPresident and Chief Executive Officer,
Sodarcen Inc.**The Honourable P. Michael Pitfield, P.C., Q.C. (1)**

Vice-Chairman of the Corporation

Yves Pratte, Q.C. (1) (3)

Partner, Clarkson, Tétrault

Pierre ScohierChief Executive Officer and
Chairman of the Executive Committee,
Campagne Belge de Participations
Paribas "COBEPA" S.A.**Peter N. Thomson**Chairman and President,
West Indies Power Corporation Limited**William I. M. Turner, Jr. (1)**Chairman and Chief Executive Officer,
Consolidated-Bathurst Inc.

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Chairman and Chief Executive Officer

Peter D. Curry

Deputy Chairman

The Honourable P. Michael Pitfield, P.C., Q.C.

Vice-Chairman

James W. Burns

President

A. F. Knowles, C.A.

Executive Vice-President

Michel Plessis-Bélair, C.A.

Vice-President, Finance and Administration

John A. Rae

Vice-President

Paul Desmarais, Jr.

Vice-President

André Desmarais

Vice-President

J. Edward Johnson

Vice-President and Secretary

Paul Morimanno, C.A.

Vice-President and Treasurer

André Gervais, C.G.A.

Vice-President and Controller

Ginette Murray-Leroy

Assistant Secretary

- 1) Member of the Executive Committee
 2) Member of the Audit Committee
 3) Member of the Compensation Committee

Power Corporation of Canada**Registered Office**759 Victoria Square
Montréal, Québec H2Y 2K4**Transfer Agent and Registrar**Montreal Trust Company
Halifax, Saint John, Montreal,
Toronto, Winnipeg, Regina,
Calgary, Vancouver**Stock Listings**Subordinate Voting Shares
The Montreal Exchange
The Toronto Stock Exchange
Vancouver Stock ExchangeParticipating Preferred Shares
The Montreal ExchangeFirst Preferred Shares, 1965 Series
The Montreal Exchange
The Toronto Stock ExchangeFirst Preferred Shares, 1986 Series
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